



*Michael C. Schlachter, CFA
Managing Director*

February 4, 2008

Dr. Russell Read
Chief Investment Officer
California Public Employees' Retirement System
400 P Street, Suite 3492
Sacramento, CA 95814

Re: Credit Enhancement Program Annual Review

Dear Russell,

In June 2006, Staff presented several changes to the Credit Enhancement Policy intended to broaden CalPERS' ability to compete for commitment opportunities in the marketplace. Given that the total earnings for this program quadrupled from 2006 to 2007, partly as a result of these policy changes and partly as a result of greater opportunities for CalPERS in a time when credit is in short supply, we believe that the improvements to the policy and program have been a success.

Staff acted prudently during the time of "cheap credit" in not over-extending CalPERS' commitments or exhausting the scope of the Credit Enhancement Program for very low fees, and hence should have even more opportunities in 2008 to earn above-average returns in this program if the "credit crunch" continues.

Overall, the program has added significant value for CalPERS and should continue to do so for the foreseeable future.

If you have any questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read 'Michael Schlachter', with a long, sweeping horizontal line extending to the right.

Michael C. Schlachter, CFA